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Profitability, Leverage, and Firm Size in Bank Dividend Decisions: The Moderating Role of Audit Quality

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A B S T R A C T
This study examines how profitability, leverage, and firm size shape the decision of Indonesian banks to pay dividends and tests whether audit quality changes these relationships. The analysis uses annual data of listed banks from 2020 to 2025 organized as a balanced panel. Profitability raises the likelihood of paying dividends among banks audited by non Big 4 firms, whereas leverage shows no meaningful influence. Audit quality weakens the profitability effect, strengthens the size effect, and leaves the leverage effect unchanged. Differences between banks account for most of the variation in dividend status, which indicates that dividend decisions are highly persistent. The study models the payment decision as a binary outcome in a panel setting, interprets moderation as conditional effects by auditor group, and offers recent evidence that covers the pandemic and the recovery.

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INTRODUCTION

The dividend decision is one of the most strategic financial choices of a listed firm because it touches three interests at once: the need for internal funding, the return expected by shareholders, and the signal that the market reads about future prospects. Banks face a more complicated version of this choice. They operate with high leverage, comply with capital and prudential rules, and must preserve capital adequacy while extending credit. A dividend payment in banking therefore reflects the available capital space, risk, and the economic cycle rather than earnings alone (Onali, 2014; Floyd et al., 2015).

The prudential dimension became visible during the pandemic. European authorities released capital buffers and restricted bank dividends to protect capital and credit supply (Matyunina & Ongena, 2022). Sapiri et al. (2026) show that Indonesian banks tended to reduce or suspend dividends during the pandemic recession compared with the phases before and after, and that prudential payment limits temporarily shifted the signaling role of dividends. Santosa et al. (2023), who observed the period from 2014 to 2020, found the opposite tendency, with higher dividends in crisis times. These contrasting findings show that bank dividend policy in Indonesia depends strongly on the prevailing regime and on bank characteristics, so new evidence for 2020 to 2025, which covers the pandemic and the recovery, is relevant.

The literature on bank dividend determinants has not reached a uniform conclusion. Sbai et al. (2024) report positive links between dividend payments and both bank size and performance in the MENA region. For Indonesian banks, Setiawan et al. (2024) apply a random effects logit model to 42 banks and find that profitability, life cycle, and size raise the likelihood of payment. Mai (2020) reports that dividend yield is negatively affected by return on assets and leverage but higher among large banks, Gusni (2017) finds negative effects of profitability and leverage in the financial industry, and Safitri et al. (2025) report positive effects of both. The inconsistency partly reflects differences in dividend measures (yield, payout ratio, or the payment decision), observation periods, and estimation methods.

Two gaps motivate this study. The first gap concerns the dependent variable. Most Indonesian bank studies use the dividend payout ratio or dividend yield, yet many banks pay no dividend in a given year, so these measures are distorted by zero values and small earnings. In the present data only 74 of 246 bank year observations (30.1%) involve a dividend payment. The payment decision (yes or no) is therefore better modeled as a binary outcome, as is common in research on the propensity to pay (Fama & French, 2001; DeAngelo et al., 2006).

The second gap concerns audit quality, whose role in strengthening or weakening the link between bank financial characteristics and dividend decisions has rarely been tested in banking. External audit is a monitoring mechanism that shapes the credibility of reported earnings (Watts & Zimmerman, 1983; Becker et al., 1998). Hendijani Zadeh (2022) shows that audit quality matters for the payout policy of audited firms, and Zahid et al. (2023) and Diab et al. (2024) show that audit quality can moderate relationships involving

dividends, although direction and significance vary by context. In banking, Ozili (2021) shows that banks audited by Big 4 firms can still smooth earnings through loan loss provisions, which means that high audit quality does not automatically make earnings more informative for dividend decisions.

The objectives of this study are to examine the effects of profitability, leverage, and firm size on the likelihood that a bank pays a dividend and to test whether audit quality moderates these effects. The study contributes in three ways. It provides recent evidence for 41 banks over 2020 to 2025, covering the pandemic and the recovery. It models the dividend decision as a binary response with a panel logit that accounts for heterogeneity across banks. It tests the moderating effect of audit quality through explicit interaction terms and interprets the results as conditional effects by auditor group rather than as interaction coefficients alone.

LITERATURE REVIEW

Theoretical Background

Signaling theory views dividends as a way for management to convey private information about earnings prospects to investors (Bhattacharya, 1979). Miller and Rock (1985) show that dividend announcements carry information about cash flows under information asymmetry. Cash dividends require real cash, so only sufficiently profitable firms can sustain them, which makes profitability a primary prerequisite of the dividend decision (Lintner, 1956; Fama & French, 2001). In banks, dividends may also signal to depositors who are sensitive to information (Forti & Schiozer, 2015).

Agency theory emphasizes the conflict of interest between managers and shareholders (Jensen & Meckling, 1976). Dividends reduce free cash flow under managerial control and thereby limit inefficient investment (Jensen, 1986), and they expose management periodically to the capital market (Easterbrook, 1984). Rozeff (1982) treats dividend policy as a balance between agency costs and the cost of external financing, and La Porta et al. (2000) link stronger shareholder protection with larger dividend payments across countries.

Life cycle theory predicts that mature firms with large retained earnings relative to equity are more likely to pay dividends than growing firms (DeAngelo et al., 2006), and it receives support from Indonesian banks (Setiawan et al., 2024). The pecking order theory states that firms facing costly external financing retain earnings first (Myers & Majluf, 1984), so small firms with limited access to funds tend to pay less. Catering theory adds that managers adjust dividends to investor demand for dividends at a given time (Baker & Wurgler, 2004).

Bank Dividends and Audit Quality

Bank dividends differ from those of nonfinancial firms in at least three respects. Banks are financed mainly by third party funds, so high leverage is structural and part of the business model rather than a capital structure choice. The ability to pay is limited by capital adequacy and regulatory buffers, and authorities may restrict payments in crises (Matyunina & Ongena, 2022). Dividends also relate to risk and moral hazard because payments to shareholders reduce the cushion for depositors and creditors (Onali, 2014). Alhalabi et al.

(2023) link bank dividend policy to debt seniority, which underlines that the structure of bank liabilities matters for payout. Standard determinants from the nonfinancial literature need retesting in banks, and the relationship between leverage and dividends cannot be assumed to match other sectors.

The demand for external audit arises from agency conflicts because audit serves as a monitoring and assurance mechanism (Watts & Zimmerman, 1983). Larger auditors have stronger reputational incentives to report independently, so auditor size is a common proxy for audit quality (DeAngelo, 1981). Clients of large auditors report lower discretionary accruals (Becker et al., 1998), although the Big N proxy has limits and audit quality is not uniform across clients (Francis, 2004). Evidence on moderation is mixed. Zahid et al. (2023) find a negative moderating effect among Big 4 clients in the relationship between ESG and dividends, Diab et al. (2024) find no significant moderation, and Butar-butar and Chang (2023) find that audit quality does not moderate the relationship between dividends and firm value in Indonesia. Ozili (2021) finds that African banks audited by Big 4 firms still use loan loss provisions to smooth earnings, with stronger incentives in recessions, and Hendijani Zadeh (2022) shows that audit quality is relevant for the payout policy of audited firms.

Hypothesis Development

Profitable banks hold more retained earnings and internal cash to distribute while still meeting capital needs. Evidence on banks supports a positive link. Sbai et al. (2024) find a positive relationship between bank performance and dividend payment, Santosa et al. (2023) and Setiawan et al. (2024) find positive effects of profitability among Indonesian banks, and Budiarso and Pontoh (2020) show that profitability relates significantly to the dividend policy of firms listed in Indonesia. The first hypothesis follows from this evidence.

H1: Profitability (ROA) has a positive effect on the dividend payment decision.

High leverage raises obligations and risk, which reduces the room of a bank to distribute profit to shareholders, particularly because dividends reduce the cushion for creditors (Onali, 2014). Santosa et al. (2023) find a negative effect of leverage on the dividend policy of Indonesian banks, and Gusni (2017) and Mai (2020) report a similar negative direction. Safitri et al. (2025) find a positive direction, so the evidence is not uniform. The second hypothesis follows the argument that leverage limits the ability to pay.

H2: Leverage (DER) has a negative effect on the dividend payment decision.

Larger banks are usually more diversified, have easier access to capital markets and therefore face lower external financing costs (Myers & Majluf, 1984), and are more mature in their life cycle (DeAngelo et al., 2006), so they are better able to sustain dividend payments (Fama & French, 2001). Sbai et al. (2024), Mai (2020), and Setiawan et al. (2024) find a positive direction for size, although Santosa et al. (2023) report a negative direction for Indonesian banks in the pandemic period. The third hypothesis is stated as follows.

H3: Firm size has a positive effect on the dividend payment decision.

Audit quality that reduces information asymmetry and raises the reliability of earnings makes the signal contained in earnings and dividends more credible, and it allows shareholders and creditors to monitor management more effectively (Watts & Zimmerman, 1983; Hendijani Zadeh, 2022). This logic suggests that audit quality should strengthen the effects of ROA, leverage, and size on the dividend decision. Evidence on moderation is not uniform (Zahid et al., 2023; Diab et al., 2024), and Ozili (2021) warns that Big 4 clients in banking can also smooth earnings. The hypotheses are therefore formulated from the monitoring logic and tested while remaining open to different directions.

H4: Audit quality strengthens the positive effect of profitability on the dividend payment decision.
H5: Audit quality strengthens the negative effect of leverage on the dividend payment decision.
H6: Audit quality strengthens the positive effect of firm size on the dividend payment decision.

METHODOLOGY

Research Design and Data

This study uses a quantitative associative design with secondary data. The population consists of banks listed on the Indonesia Stock Exchange, and the sample covers 41 banks with complete data from 2020 to 2025. Data come from the annual financial statements of each bank. The panel is strongly balanced, with 41 banks observed over six years, which yields 246 bank year observations.

Variable Measurement

The dependent variable is the dividend payment decision (DDP), coded 1 when a bank pays a dividend in a given year and 0 otherwise. Profitability is measured by return on assets (ROA), defined as net income for the period divided by total assets, and it enters the models in standardized form so that its coefficient refers to one standard deviation. Leverage is the debt to equity ratio (DER), calculated as total liabilities divided by total equity. Firm size (SIZE) is the natural logarithm of total assets. Audit quality (AQ) is a dummy variable equal to 1 when the bank is audited by a Big 4 public accounting firm and 0 otherwise. The Big 4 proxy is widely used, but it does not capture every dimension of audit quality (Francis, 2004).

Model Specification and Estimation Strategy

The dependent variable is binary and the data form a panel, so the study applies a panel logistic regression. The moderating effect of audit quality is specified through interaction terms, as shown in Equation 1.

$$\text{Logit}\,[P(DDP_{it}=1)] = \beta_0 + \beta_1\,ROA_{it} + \beta_2\,DER_{it} + \beta_3\,SIZE_{it} + \beta_4\,AQ_{it} + \beta_5\,(AQ \times ROA)_{it} + \beta_6\,(AQ \times DER)_{it} + \beta_7\,(AQ \times SIZE)_{it} + u_i \quad (1)$$

The subscript i denotes the bank, t denotes the year, and ui is the bank specific effect, which is assumed to follow a normal distribution with mean zero

and variance σu^2 under the random effects model. Moderation is tested through the interaction coefficients $\beta 5$, $\beta 6$, and $\beta 7$. The coefficients of ROA, DER, and SIZE describe the effects for banks audited by non Big 4 firms (AQ = 0), while the effects for banks audited by Big 4 firms equal the sum of each main coefficient and its interaction coefficient (Aiken et al., 1991; Brambor et al., 2006).

The analysis proceeds in four steps. Descriptive statistics and a cross tabulation describe the data. A linear probability model estimated by OLS serves only as a preliminary check and as the basis for variance inflation factors (VIF) that detect multicollinearity. Fixed effects and random effects logit models are then estimated and compared through the Hausman (1978) test and a likelihood ratio test of $\rho = 0$, which assesses the need for a bank effect. The selected model is reported as coefficients and odds ratios (OR). Random effects estimation uses Gauss Hermite quadrature (Rabe-Hesketh & Skrondal, 2008), and all computations are run in Stata 17 following the panel techniques of Wooldridge (2010). The significance level is 5 percent, and marginal significance at 10 percent is reported explicitly.

Interpreting Interactions in the Logit Model

In nonlinear models such as logit, the coefficient and standard error of an interaction term cannot be read directly as the interaction effect on the probability scale because that effect depends on the values of all explanatory variables (Ai & Norton, 2003; Norton et al., 2004). This study therefore interprets interactions on the log odds and odds ratio scale by comparing conditional effects across auditor groups. Logit coefficients also cannot be compared across models because the scale of the latent variance differs (Mood, 2010), so comparisons are limited to direction and significance. Average marginal effects and adjusted predictions are suggested as complements for future work (Williams, 2012).

RESEARCH RESULT AND DISCUSSION

Descriptive Statistics

Table 1 reports the descriptive statistics of the quantitative variables.

Table 1. Descriptive Statistics of Quantitative Variables

Variable	Mean	Std. dev.	Minimum	Maximum
ROA (standardized)	0.000	0.995	−2.802	2.802
DER	4.420	2.542	0.001	11.329
SIZE (Ln total assets)	32.018	2.251	28.410	39.039

The mean DER of 4.42, with a wide range from 0.001 to 11.33, reflects a capital structure that relies on third party funds, so leverage is naturally high in banking. SIZE ranges from 28.41 to 39.04 with a standard deviation of 2.25, which indicates considerable heterogeneity in bank size.

Only 74 of the 246 bank year observations (30.1%) involve a dividend payment, so the dependent classes are sufficiently balanced for logit analysis. The share of paying observations is 45.0% (45 of 100) among banks audited by Big 4 firms, far above the 19.9% (29 of 146) among banks audited by other firms. A Pearson chi square test on this cross tabulation gives $\chi^2(1) = 17.83$ with $p < 0.001$,

computed by the authors from the observed frequencies. This bivariate pattern agrees with the expectation that audit quality relates to the likelihood of dividend payment, but it does not yet account for differences in profitability and size across groups.

Model Diagnostics and Model Selection

All VIF values lie between 1.03 and 1.06 with a mean of 1.04, far below common thresholds, so multicollinearity is not a concern. The preliminary linear probability model ($R^2 = 0.2685$) shows positive and significant associations of ROA, SIZE, and AQ with the likelihood of dividend payment, while DER is insignificant. Banks audited by Big 4 firms have a probability of payment about 20.5 percentage points higher after controlling for ROA, DER, and SIZE. This model indicates direction only and is not used for inference because it ignores the binary nature of the dependent variable and the panel structure.

The fixed effects logit can use only banks that switch dividend status during the observation period. Only 7 of the 41 banks (42 observations) qualify, 34 banks (204 observations) are dropped because they always or never pay, and the AQ variable is dropped because it does not vary within banks. The fixed effects model therefore loses most of the information and produces very wide standard errors, so its estimates are not reported. The random effects model uses all 246 observations and is significant overall (Wald $\chi^2(7) = 21.23$; $p = 0.003$). The likelihood ratio test rejects $\rho = 0$ (chibar squared = 75.69; $p < 0.001$), which shows that a bank specific component is needed and that a pooled logit is inadequate. The Hausman test gives $\chi^2(6) = 11.35$ with $p = 0.078$, so the null hypothesis of unsystematic coefficient differences is not rejected at 5 percent and the random effects model is chosen. The test relies on a fixed effects estimate based on few banks and is marginal at 10 percent, so the result should be read with caution.

Random Effects Logit Estimates

Table 2 presents the estimates of the random effects logit model.

Table 2. Random Effects Panel Logit Estimates

Variable	Coef.	Std. error	z	p	Odds ratio
ROA	2.862	1.168	2.45	0.014	17.498
AQ (Big 4 = 1)	−58.720	28.950	−2.03	0.043	3.15×10^{-26}
AQ × ROA	−3.058	1.357	−2.25	0.024	0.047
DER	−0.083	0.322	−0.26	0.796	0.920
AQ × DER	−0.502	0.758	−0.66	0.508	0.605
SIZE	0.802	0.459	1.75	0.081	2.231
AQ × SIZE	2.024	0.930	2.17	0.030	7.566
Constant	−30.481	15.350	−1.99	0.047	5.78×10^{-14}

Source: Stata output processed by the authors.

The variance across banks is very large ($\sigma u = 4.514$; $\rho = 0.861$), meaning that about 86 percent of the latent variance of the dividend decision stems from permanent differences between banks rather than yearly fluctuations. This agrees

with the fact that most banks did not change dividend status between 2020 and 2025.

The main coefficient of AQ (−58.720) cannot be read directly. In a model with interactions it is the effect of Big 4 auditing when ROA, DER, and SIZE equal zero, and because SIZE is a log of assets ranging from 28.4 to 39.0, zero lies far outside the data range. This also explains the very small constant and odds ratio in Table 2. The meaningful effect of Big 4 auditing must be evaluated at relevant values. Inserting the sample means (ROA = 0, DER = 4.42, SIZE = 32.02) gives a log odds difference of about 3.86 between Big 4 and non Big 4 banks (OR about 47). The figure is indicative because it has no standard error and depends on the evaluation point, but its direction agrees with the linear probability model (AQ coefficient = 0.205; $p < 0.001$) and with the cross tabulation.

Conditional effects by auditor group follow from the sum of the main and interaction coefficients. For ROA the log odds coefficient is 2.862 (OR = 17.50) among non Big 4 banks and −0.196 (OR = 0.82) among Big 4 banks. For DER the corresponding values are −0.083 (OR = 0.92) and −0.585 (OR = 0.56). For SIZE they are 0.802 (OR = 2.23) and 2.826 (OR = 16.88).

Profitability and the Dividend Decision

Among non Big 4 banks, ROA has a positive and significant effect on the likelihood of dividend payment ($\beta = 2.862$; $p = 0.014$). The standardized form of ROA means that the odds of paying a dividend rise by about 17.5 times for each one standard deviation increase in ROA. The odds ratio has a very wide confidence interval (1.78 to 172.53), so its magnitude is estimated imprecisely, but the positive direction agrees with the linear probability model ($p < 0.001$). H1 is supported for the non Big 4 group, which fits signaling theory: a bank can sustain cash payments only when earnings are adequate (Miller & Rock, 1985; Lintner, 1956).

The result agrees with Sbai et al. (2024) for MENA banks, Santosa et al. (2023) and Setiawan et al. (2024) for Indonesian banks, and Budiarso and Pontoh (2020) for firms listed in Indonesia. It differs from Mai (2020) and Gusni (2017), who report negative effects. The difference is plausible given the dependent variable. Studies that use dividend yield or payout ratio capture how much is paid, which can fall when earnings rise because banks retain profit for expansion, whereas this study captures whether a bank pays at all. Among Big 4 banks the conditional effect of ROA is nearly flat (−0.196), so support for H1 does not hold evenly across both groups.

Leverage and the Dividend Decision

DER has no significant effect ($\beta = -0.083$; $p = 0.796$). The negative sign matches the expectation but is statistically weak, so H2 is not supported. One plausible explanation is that bank leverage is uniformly high because of the intermediation business (mean DER = 4.42), so it discriminates less among dividend decisions than in nonfinancial sectors. This explanation is conjectural, and earlier evidence is mixed, ranging from negative effects (Santosa et al., 2023; Gusni, 2017; Mai, 2020) to positive effects (Safitri et al., 2025).

A conceptual reason also explains why DER is less informative. What limits payment in banks is capital adequacy relative to risk weighted assets and the required capital buffers rather than the raw ratio of debt to equity (Matyunina & Ongena, 2022). Setiawan et al. (2024) find that the capital adequacy ratio (CAR) and nonperforming loans (NPL) matter in Indonesian bank dividend policy, and Sapiri et al. (2026) highlight the role of capital adequacy and asset quality. The absence of CAR and NPL from this specification means that the crude DER may capture only a small part of the true capital constraint. The structure of bank debt, including seniority, also relates to payout policy (Alhalabi et al., 2023) and is not captured by aggregate DER.

Firm Size and the Dividend Decision

Among non Big 4 banks, SIZE has a positive effect that is significant only at 10 percent ($\beta = 0.802$; $p = 0.081$), so H3 receives weak support. The positive direction agrees with Sbai et al. (2024), Mai (2020), and Setiawan et al. (2024) and contrasts with the negative finding of Santosa et al. (2023) for the pandemic period. Larger banks face lower external financing costs and can pay more freely (Myers & Majluf, 1984), and they are more likely to have reached maturity in their life cycle (DeAngelo et al., 2006). The weak significance among non Big 4 banks suggests that size alone does not separate paying from non paying banks in this group. The size effect is much stronger among Big 4 banks, as discussed next.

Moderating Role of Audit Quality

The moderation results differ across variables. The AQ × ROA interaction is negative and significant ($\beta = -3.058$; $p = 0.024$), so audit quality weakens rather than strengthens the effect of ROA, and H4 is not supported because the direction is opposite. This negative direction agrees with Zahid et al. (2023), who report a negative moderating effect among Big 4 clients, and differs from Diab et al. (2024), who find no significant moderation. The AQ × DER interaction is insignificant ($\beta = -0.502$; $p = 0.508$), so H5 is not supported and audit quality does not change the relationship between leverage and dividends. The AQ × SIZE interaction is positive and significant ($\beta = 2.024$; $p = 0.030$), so H6 is supported, with a conditional size effect of 2.826 (OR about 16.9) among Big 4 banks compared with 0.802 among non Big 4 banks. Table 3 summarizes the hypothesis tests.

Table 3. Summary of Hypothesis Testing

Code	Hypothesis	Result
H1	ROA has a positive effect on the dividend decision	Supported for non Big 4 banks (p = 0.014)
H2	DER has a negative effect on the dividend decision	Not supported (p = 0.796)
H3	SIZE has a positive effect on the dividend decision	Weakly supported at the 10% level (p = 0.081)
H4	AQ strengthens the effect of ROA	Not supported; moderation is significant but negative (p = 0.024)
H5	AQ strengthens the negative effect of DER	Not supported (p = 0.508)
H6	AQ strengthens the effect of SIZE	Supported (p = 0.030)

Source: Summary of the estimates in Table 2.

Audit quality does not work as a uniform amplifier of all determinants. For banks audited by high quality auditors, size becomes a far more decisive factor while the sensitivity to yearly profitability declines. This pattern suggests that dividend decisions at Big 4 audited banks reflect stable institutional traits such as size, maturity, and capital policy, whereas decisions at non Big 4 banks follow current earnings more closely.

Why the ROA Effect Weakens Among Big 4 Banks?

The most unexpected result is the weaker ROA effect among banks audited by Big 4 firms. The study is not designed to separate causal explanations, so the four explanations below are offered as hypotheses consistent with the data that need testing in future research.

The first explanation concerns group composition (selection). Auditor choice is not random, because the audit quality that clients demand relates to client characteristics (Watts & Zimmerman, 1983; Francis, 2004). Large and established banks tend to hire Big 4 auditors, and this group already pays dividends at a high rate (45.0%). Many Big 4 banks already pay, so yearly ROA variation explains less of the difference in dividend status within the group, and the interaction coefficient may reflect compositional differences rather than a causal auditor effect.

The second explanation concerns earnings quality in banks. Ozili (2021) shows that banks audited by Big 4 firms still use loan loss provisions to smooth earnings, with stronger incentives during recessions. Smoother earnings make yearly ROA changes a weaker reflection of actual payment capacity, so the link between ROA and the dividend decision weakens. The explanation also reminds that audit quality is not equal to earnings that are more informative for dividend signals.

The third explanation concerns capital rules and dividend smoothing. Dividends tend to be smoothed over time rather than follow yearly earnings mechanically (Lintner, 1956), and banks face prudential restrictions that can hold

back payment in crises (Matyunina & Ongena, 2022; Sapiri et al., 2026). Large banks with established dividend policies and long term capital targets can maintain payment status even when ROA fluctuates, whereas small banks depend more on current earnings.

The fourth explanation concerns the life cycle. Mature firms with large retained earnings relative to equity are more likely to pay dividends (DeAngelo et al., 2006), and similar findings exist for Indonesian banks (Setiawan et al., 2024). Maturity and size may determine the dividend status of Big 4 audited banks if these banks are more often mature, which fits the strengthened size effect (H6) and implies that profit fluctuation matters less. The study has no life cycle indicator such as the ratio of retained earnings to equity, so this explanation remains untested.

Dividend Persistence and Temporal Pattern

The value $\rho = 0.861$ shows that most latent variation in the dividend decision comes from relatively fixed bank traits such as ownership structure, payment culture, and position in the life cycle. This agrees with the view that dividends are sticky and smoothed (Lintner, 1956) and with evidence that past dividends influence payment decisions in Indonesian banks (Santosa et al., 2023). The large heterogeneity also explains why the fixed effects model is unreliable, since only 7 of 41 banks switch status. Determinants that vary across years (ROA, DER) explain only a small part of dividend status, and unobserved bank traits such as state, foreign, and family or business group ownership are probably important (Sbai et al., 2024; Prahbawati & Isnalita, 2025). The findings should be read as effects within a framework of large heterogeneity, not as a complete explanation of dividend decisions.

The share of banks paying dividends rose from 26.8% in 2020 to 36.6% in 2025. Among Big 4 audited banks it increased from 43.8% to 50.0%, and among non Big 4 banks from 16.0% to 26.1%. The pattern agrees with a recovery of dividend payment after the pandemic pressure, as shown by changing dividend behavior across crisis phases (Sapiri et al., 2026), and the gap between the two auditor groups remains large throughout the period. The number of Big 4 audited banks changes between years (15 to 18 banks per year), so year to year comparisons are descriptive only.

Comparison with Previous Studies

The findings on ROA and size agree reasonably with studies that model the payment decision or payout ratio, while differences from studies based on dividend yield can be explained by different constructs of the dependent variable. Direct comparability is limited by differences in dividend measures, periods, and samples. The distinctive contribution of this study lies in the moderation results. Audit quality does not strengthen every relationship but changes the profile of dividend determinants from earnings driven among non Big 4 banks to size driven among Big 4 banks.

Implications

Theoretical implications. The results show that the role of audit quality within signaling and agency frameworks cannot be assumed to be a uniform amplifier. In banks, where prudential constraints and dividend smoothing dominate, high quality audit relates to dividend decisions that are less sensitive to yearly earnings. The findings add contextual evidence to the mixed literature on audit quality as a moderator (Zahid et al., 2023; Diab et al., 2024) and support the view that audit quality does not guarantee earnings free from smoothing (Ozili, 2021).

Implications for investors. Dividend signals should not be read uniformly. At non Big 4 banks a change in dividend status relates more directly to profitability, so a skipped dividend can signal earnings pressure. At Big 4 audited banks dividend status reflects size and establishment more strongly, so short term ROA changes do not necessarily lead to dividend changes.

Implications for bank management and audit firms. Managers of medium and small banks need to recognize that consistent dividend payment requires stable profitability, and banks that wish to build a payment reputation can use high quality audit to raise the credibility of financial statements. For audit firms, the finding of Ozili (2021) underlines the need for attention to loan loss provisions as an area that can affect earnings quality and payment decisions.

Implications for regulators. Dividend decisions of banks relate to capital adequacy and stability, so regulators should assess payment feasibility with attention to capital and buffers rather than earnings alone (Matyunina & Ongena, 2022; Sapiri et al., 2026). The dominant role of size among Big 4 audited banks also shows that large banks have a systemic influence on dividend flows in the banking sector.

Limitations

Several limitations should be noted. Only 7 of 41 banks changed dividend status during the observation period, so within bank variation is very limited, the fixed effects model is unreliable, and the estimated coefficients have wide confidence intervals. The Hausman test is marginal ($p = 0.078$) and depends on a fixed effects estimate resting on few banks. The specification omits important determinants of bank dividends such as capital adequacy (CAR), credit quality (NPL), ownership structure, life cycle, and the previous year dividend (Setiawan et al., 2024; Santosa et al., 2023), and it does not separate crisis and recovery periods. Audit quality is proxied only by Big 4 status and does not capture industry specialization or financial reporting quality directly (Francis, 2004), and auditor choice is endogenous to bank characteristics, so interaction coefficients must not be read causally. ROA is standardized and SIZE is not centered, so the main coefficient of AQ and the constant cannot be interpreted directly. The significance of conditional effects for the Big 4 group is not reported, and interactions in nonlinear models should be complemented by marginal effects (Ai & Norton, 2003; Norton et al., 2004; Williams, 2012).

CONCLUSION AND RECOMMENDATION

This study examined how profitability, leverage, and firm size influence the dividend payment decision of listed banks in Indonesia and whether audit quality moderates these influences. Profitability supports dividend payment among banks audited by smaller firms, while leverage does not distinguish paying banks from non paying banks and is not altered by audit quality. Firm size has a weak positive influence among banks audited by smaller firms and a much stronger influence among banks audited by Big 4 firms. Audit quality weakens the sensitivity of dividend decisions to profitability. Differences between banks are large, so dividend status is persistent over time.

Audit quality does not act as a uniform amplifier of the determinants of bank dividends. It is better understood as a marker of different decision profiles. Dividend decisions of banks audited by smaller firms tend to follow current earnings, whereas those of banks audited by Big 4 firms are determined more by size and establishment. The results are associative and should be interpreted with caution because very few banks changed their dividend status and the choice of auditor is endogenous.

ADVANCED RESEARCH

Investors are advised to read dividend signals differently according to the auditor group and the size of the bank. Bank management should pursue stable profitability and careful capital planning to support consistent payment. Regulators are advised to emphasize capital adequacy and stability when assessing the feasibility of dividend payments. Future research should add capital adequacy, credit quality, ownership, life cycle, and previous dividends as control variables, separate the pandemic and recovery phases, and use robust standard errors clustered by bank together with marginal effects. Further studies should also test the significance of conditional effects for the Big 4 group, broaden the measure of audit quality through industry specialization or accrual quality, and use continuous dividend measures such as the payout ratio as a robustness check.

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